Office of the Legislative Auditor

State of Montana

Report to the Legislature

February 1993

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1992

Montana School for the Deaf and Blind

This report contains seven recommendations pertaining to compliance with state laws and regulations and accounting controls. These recommendations address:

- Compliance with state laws regarding holidays and annual leave; gathering of employment data; admittance to the school; and recovering indirect costs to the fullest extent possible.
- Strengthening internal controls over student accounts.
- Accounting for financial activity in accordance with state law.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

92-19B

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1991 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1992

Montana School for the Deaf and Blind

Members of the audit staff involved in this audit were Pearl M. Allen, Brenda Bokovoy, Renee Holman, Victoria Murphy, and Julie Quist.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
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MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

February 1993

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and Blind for the two fiscal years ending June 30, 1992. The school's written response to the audit recommendations is included in the back of the audit report.

We thank the superintendent and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Table of Contents

Table of Contents

List of Tables

Elected, Appointed, and Administrative Officials

Board of Public Education

Marc Racicot, Governor*

Nancy Keenan, Superintendent of Public Instruction*

John Hutchinson, Commissioner of Higher Education*

		Term Expires
William Thomas, Chairperson	Great Falls	1993
C. John Kinna, Vice Chairperson	Helena	1996
Thomas A. Thompson	Heart Butte	1994
Anita A. Johnson	Lewistown	1995
Ron Fernelius	Missoula	1997
Sarah Listerud	Wolf Point	1998
Wilbur Anderson	Dillon	1999
Brad Schlepp, Student Representative	Miles City	1993

*ex officio members

Montana School for the Deaf and Blind

Bill Prickett, Superintendent

Bill Sykes, Business Manager

This listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Summary of Recommendations

Introduction

We performed a financial-compliance audit of the Montana School for the Deaf and Blind for fiscal years 1990-91 and 1991-92. The objectives of the audit were to:

1. Determine if the school complied with applicable state and federal laws and regulations.

2. Make recommendations for improvement in management and internal control of the school.

3. Determine if the school's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1992.

4. Determine the implementation status of prior audit recommendations.

This report has seven recommendations to the school. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing these recommendations.

Background

The Montana State School for the Deaf and Blind (MSDB) was founded in 1893 as part of the Montana State Training School at Boulder. In 1937 the school was transferred to Great Falls and established as a separate and independent institution of the state of Montana. The school is under the general supervision, direction, and control of the Board of Public Education. Board members are appointed by the governor and confirmed by the Senate.

The purpose of the school is to educate children whose hearing or vision is impaired such that they cannot be properly taught in the public schools of the state. In addition, the school serves deaf and blind children throughout the state through its itinerant teacher program. This program includes three regional resource consultants who travel throughout the state to consult with parents and teachers of deaf and blind children. The following schedule shows the number of students served and full-time equivalent employees at the school during the audit period.

Table 1
MSDB Students and Staff

	Fiscal 1990-91	Fiscal 1991-92
Children off campus	49	50
Children on campus	54	53
Outreach/itinerant program	194	201
Total Students Served	297	304
Full-time Equivalent Staff	84.54	85.38

Source: Prepared by the Office of the Legislative Auditor from MSDB records

The school works closely with the Montana School for the Deaf and Blind Foundation, Inc. The foundation has a contract with the Board of Public Education to hold and manage assets for the benefit of the Montana School for the Deaf and Blind.

Prior Audit Recommendation

The previous audit of the Montana School for the Deaf and Blind contained four recommendations. The school partially implemented three recommendations and did not implement one recommendation.

One of the recommendations partially implemented relates to the school's recording of fixed assets in accordance with state policy. During our audit we noted the school recorded fixed assets that belonged to Montana School for the Deaf and Blind Foundation. This issue was discussed with management, and they intend to correct their records. The other two recommendations partially implemented relate to federal indirect cost recoveries and internal controls over student accounts which are discussed on pages 8 and 7, respectively. The recommendation not implemented relates to employment placement which is discussed on page 5.

Findings and Recommendations

State Compliance

During our audit we tested compliance with certain state laws, policies, and regulations related to the operation of the school. We noted the instances discussed below where the school did not comply with provisions of state laws, policies, and regulations.

Annual and Holiday Leave Calculation

ARMs section 2.21.221(3) which implements section 2-18-604, MCA, states "Leave credits may not be advanced nor may leave be taken retroactively." In addition, state policy requires the school to record the cost of employee's leave when the employee uses the annual leave.

During the 1990-91 and 1991-92 school year, the school employed approximately 55 staff under negotiated contracts. We noted the school increases the employee's gross pay by including a value equivalent to the number of days of annual leave and holidays allowed in calculating the hourly wage for each employee. The method used by the school does not comply with state policy because the employees receive pay for annual leave or holidays prior to earning or taking this time off.

School personnel noted the union contract requires it to calculate the hourly wage rate in the manner used by the school. Personnel further indicated it is difficult to obtain qualified substitute teachers and to fund the substitutes because of budget restrictions. However, the school cannot modify state law through collective bargaining. If the school believes using its current negotiated method is the most cost beneficial, it should seek legislation to amend state law allowing it to pay vacation and holiday leave as it currently does. It should also work with the Department of Administration to ensure that annual and holiday leave for contract employees is credited, paid, and recorded as required by state law and policy.

Recommendation #1

We recommend the school seek legislation to amend state leave laws to allow it to pay contract employees for annual and holiday leave as part of the employees' hourly wage rate.

Employment Placement

As noted in our two previous audits, the superintendent of the school does not gather and record data to assist in locating suitable employment for school graduates as required by section 20-8-116, MCA. The superintendent is also required to coordinate the work with other state and federal agencies.

School officials stated prior to 1987 a career education coordinator who devoted approximately 25 percent of her time gathering data and arranging career placement performed this duty. In response to our prior audits, personnel noted the legislature eliminated an FTE increase request for this position for the 1991 biennium. Personnel stated due to other position reductions, it did not reassign the duties for that position to other staff members. In the 1993 biennium budget submitted to the Office of Budget and Program Planning (OBPP), the school requested a .73 FTE for the position costing approximately $20,000 a year. School personnel stated the request was not approved by OBPP.

The school has a task force that will be considering alternate methods of complying with this law. The school may want to consult with the Department of Social and Rehabilitation Services and the Department of Labor and Industry. Both of these agencies already perform some of these functions. The school should determine whether it could contract with these agencies to help comply with this law.

Recommendation #2

We recommend the school implement procedures to gather and record employment data as required by state law.

Civil Rights Act

Section 20-8-104, MCA, states students "... who are not mentally deficient, dangerously diseased in body, or of confirmed immorality or incapacitated for useful instruction by reason of physical disability may be admitted to such school." During our audit, we noted the school has admitted seven students who do not qualify under this law.

Personnel indicated the school admits these students because federal law states that no person shall, on the grounds of race, color, national origin, age or handicap be excluded from participation in any program funded, in whole or in part, by federal funds. Since the school receives federal funds it must comply with federal laws. Personnel also indicated a task force has been formed and will be making recommendations to the legislature concerning this issue.

Recommendation #3

We recommend the school seek legislation amending state law to ensure student admittance complies with federal laws.

Student Accounts

The school is the custodian of cash accounts for the students attending the school. The school receives money on behalf of the student, and disburses the money to the student upon the student's request. The school maintains the students' money in an approved nontreasury bank account. It identifies individual student accounts on its student account system. During fiscal year 1991-92 bank records show the school deposited approximately $35,000 and withdrew approximately $36,000 on behalf of the residents. At June 30, 1992 the school was accountable for approximately $7,500 of students' money. We identified the following areas where the school could improve control over student accounts.

-- Section 17-6-105(6), MCA, and state accounting policy require agencies to deposit collections daily when coin and currency exceeds $100, or total collections exceed $500. We reviewed deposits the school made during May 1992. We noted two instances where the school collected $989 and $988, but did not deposit the money until the end of the week. In both these instances the school exceeded $500 of collections several days prior to making the deposit. We also noted personnel delivered money collected at the student dorms to the main office once a week regardless of the amount of money collected. Department personnel indicated it is not cost beneficial to deposit small amounts of money due to the staff time involved.

-- The school writes student's a check to close out the student's account. If a student does not cash the check after a year or two, the school voids the check and transfers the money to the accumulated interest account. During fiscal year 1990-91 and 1991-92, the school had $85 of uncashed checks. School personnel stated they try to contact students to remind them to cash checks. However, section 70-9-301, MCA, states "Every person holding money or other property. . . presumed abandon (i.e., five years of no activity). . . shall report the property to the department (Department of Revenue). . ." Section 70-9-303, MCA, further requires the person holding abandoned property to deliver the property to the Department of Revenue with the report.

-- One employee is responsible for collecting and disbursing cash, making deposits, recordkeeping, and reconciling bank statements. State accounting policy requires the school to separate, if feasible, the functional responsibilities of

recordkeeping, authorization, operations, and custodianship. School personnel indicated the current system evolved due to the limited number of staff. The school could reallocate current responsibilities to obtain adequate segregation of duties. Adequate segregation of duties is important so an employee is not in a position to perpetrate and conceal errors or irregularities in the normal course of their duties.

While reviewing student accounts we noted school personnel did not perform independent counts of its petty cash accounts. State accounting policy requires agencies to have a person, separate from the operation of the account, perform a monthly count of cash accounts. School personnel stated they were not aware of the policy regarding independent monthly cash counts.

Recommendation #4

We recommend the school:

A. Develop and implement a policy on abandoned property which complies with state law.

B. Implement controls over cash to ensure compliance with state law and accounting policy.

Administrative Cost Recovery

Federal regulations allow state agencies reimbursement for indirect costs as necessary for the administration of federal grants. Section 17-3-111, MCA, requires state agencies to recover indirect costs of administering federal assistance programs to the fullest extent possible. Recovery of indirect costs reduces the amount of state money required to support federal programs.

The school negotiates with the federal government an indirect cost rate each year to recover indirect costs. Each year the state develops a Statewide Cost Allocation Plan (SWCAP) which distributes central operating costs, such as the cost of processing payroll, and operating the purchasing division, to each agency.

The school can then use these costs as part of its total indirect costs. During fiscal year 1991-92 the school did not include the portion of SWCAP associated with the school in its indirect cost rate proposal. The school could have collected an additional $1,055 if it had included the SWCAP costs in its indirect cost rate proposal.

School personnel indicated the SWCAP amount was not available when they were preparing the indirect cost rate proposal. The school had permission to use its fiscal year 1989-90 indirect cost rate for three consecutive years (i.e. 1989-90, 1990-91, and 1991-92). The school could have used the previous years SWCAP in the proposal and made the necessary adjustments in subsequent years.

Recommendation #5

We recommend the school recover indirect costs to the fullest extent possible in accordance with state law.

Unrecorded Revenue and Expenditure Activity

Section 17-1-102(5), MCA, requires state agencies to input to the state's accounting system, before the close of the fiscal year, all transactions necessary to show receipt and use of public money in accordance with generally accepted accounting principles (GAAP). During our audit, we noted the following two instances where the school did not record all revenue and expenditure transactions on the state's accounting records.

Reimbursement for Services Provided

State accounting policy allows the school to reduce expenditures when it collects money if the service provided was for the sole benefit of the payee, and not part of the operation of the school. We identified the following three instances where the school collects money from individuals and inappropriately reduces

expenditures. In these instances the school should have recorded revenue rather than reducing expenditures.

-- The school provides driver education classes for the students. Each student pays $50 for the class. The school reduces the expenditure for the cost of leasing the drivers' education car by the amount of money it collects from the students.

-- The staff may eat lunch at the school for a small fee. The school reduces the expenditures for the cost of the food by the amount of money it collects from the staff.

-- Occasionally the school has students who intentionally damage school property. When the student reimburses the school for repair and maintenance, it reduces the expenditures for repair and maintenance by the amount of money it collects from the students.

As a result of these instances, we determined General Fund expenditures and revenue are understated by $307 and $1,499 in fiscal year 1990-91 and 1991-92, respectively. School personnel stated they were being reimbursed for costs associated with these items and believed it was appropriate to reduce expenditures. Since these are functions the school routinely performs, the school should record the cash collections as revenue. For further clarification on when it is appropriate to reduce expenditures, the school should contact Department of Administration, Accounting Bureau. Also, by reducing expenditures, rather than recording revenues, the school has inappropriately increased its spending authority.

Recommendation #6

We recommend the school work with Department of Administration to ensure revenue and expenditures are properly recorded on the state's accounting system in accordance with state law.

Rental Income

In 1951 the state purchased six lots near the school and subsequently constructed three houses on the land. The school rents these houses to private citizens. During fiscal year 1990-91, school personnel allowed the Montana School for the Deaf and Blind Foundation (foundation) to collect 100 percent of the rental income for two houses and 52 percent of the third house. School officials contend the portion of the land acquired with donated money supports the foundation's interest. The school records revenue on the states accounting records for 48 percent of the rental income from one house.

While the property was purchased, in part, with donated money, it is no longer a donated asset since the original donation was spent for the purchase of the land and at that time lost its identity as a donation. School officials cite section 20-8-111, MCA, as authority for the Board of Public Education to ". . . directly or through contract. . . receive, hold, manage, use and dispose of real property made over to such board or to the state . . ." We do not take exception to utilizing the foundation as the manager of the funds as long as the school accounts for the donation made to the school. Since legal title of the property is recorded in the name of the state, the state has a 100 percent interest in the property. The school should record 100 percent of the rental income on the states accounting records. The school did not record $6,163 and $6,835 of revenue during fiscal year 1990-91 and 1991-92, respectively.

We also noted the school classifies the rental income as a miscellaneous revenue rather than rentals, leases and royalty revenue. State accounting policy defines miscellaneous revenue classification as revenues which cannot be appropriately recorded in the other more specific categories. Since there is a category for rental income, the school should properly classify rental revenue as rental income revenue. School personnel stated they were not aware the revenue was misclassified.

Recommendation #7

We recommend the school properly record and classify all rental revenue on the states accounting records in accordance with state law.

Independent Auditor's Report & School's Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments for errors noted during the audit. The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented. The unqualified opinion on the financial schedules indicates the schedules are fairly stated in all material respects and the reader can rely on the reasonableness of the information presented on these schedules.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

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Operations and EDP Audit

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Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana School for the Deaf and Blind for each of the two fiscal years ended June 30, 1991 and 1992, as shown beginning on page A-4. The information contained in these financial schedules is the responsibility of the school's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the school's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana School for the Deaf and Blind for the two years ended June 30, 1991 and 1992, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 1, 1992

MONTANA SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

	General Fund	Special Revenue Funds	Expendable Trust Funds
FUND BALANCE: July 1, 1990	$ 0	$ 67,436	$ 0
ADDITIONS			
Fiscal Year 1990-91:			
Budgeted Revenue & Transfers In	30,755	374,865	
Prior Year Revenue Adjustments	28,015		
Prior Year Expenditure Adjustments	7,524	68	
Support From State of Montana	2,568,768		
Nonbudgeted Revenue & Transfers In			17,310
Fiscal Year 1991-92:			
Budgeted Revenue & Transfers In	21,173	364,974	
Support From State of Montana	2,659,324		
Prior Year Expenditure Adjustments		44	
Nonbudgeted Revenue & Transfers In			58,678
Total Additions	5,315,559	739,951	75,988
REDUCTIONS			
Fiscal Year 1990-91:			
Budgeted Expenditures & Transfers Out	2,635,062	372,102	
Prior Year Revenue Adjustments		28,097	
Nonbudgeted Expenditures & Transfers Out			17,310
Fiscal Year 1991-92:			
Budgeted Expenditures & Transfers Out	2,680,460	359,925	
Prior Year Expenditure Adjustments	1		
Prior Year Revenue Adjustments	36		
Nonbudgeted Expenditures & Transfers Out			58,678
Total Reductions	5,315,559	760,124	75,988
FUND BALANCE: June 30, 1992	$ 0	$ 47,263	$ 0

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

	Charges for Services	Sale of Documents & Merchandise	Miscellaneous	Federal Indirect Cost Recoveries	Other Financing Sources	Federal	Total
Fiscal Year 1991-92							
GENERAL FUND							
Estimated Revenue	$15,033	$ 3,300	$ 4,000				$ 22,333
Actual Revenue	15,033	3,500	2,640				21,173
Collections Over (Under) Estimate	$ 0	$ 200	$(1,360)				$ (1,160)
SPECIAL REVENUE FUND							
Estimated Revenue				$19,182	$170,000	$180,257	$369,439
Actual Revenue				16,460	193,664	154,850	364,974
Collections Over (Under) Estimate				$(2,722)	$ 23,664	$(25,407)	$ (4,465)
Fiscal Year 1990-91							
GENERAL FUND							
Estimated Revenue	$25,184	$ 4,000	$ 7,000				$ 36,184
Actual Revenue	25,184	2,961	2,610				30,755
Collections Over (Under) Estimate	$ 0	$(1,039)	$(4,390)				$ (5,429)
SPECIAL REVENUE FUND							
Estimated Revenue				$26,071	$147,307	$169,688	$343,066
Actual Revenue				26,427	186,868	161,570	374,865
Collections Over (Under) Estimate				$ 356	$ 39,561	$ (8,118)	$ 31,799

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Administration	General Services	Student Services	Education	Total
PERSONAL SERVICES					
Salaries	$ 86,295	$ 125	$179,405	$1,057,155	$1,322,980
Hourly Wages	50,492	71,779	300,974	255,283	678,528
Employee Benefits	29,657	23,103	138,897	311,905	503,562
Total	166,444	95,007	619,276	1,624,343	2,505,070
OPERATING EXPENSES					
Other Services	42,513	5,120	5,839	18,240	71,712
Supplies & Materials	2,263	18,880	48,372	65,106	134,621
Communications	13,910	95	389	3,849	18,243
Travel	3,330	534	46,918	17,304	68,086
Rent	189	374	480	2,868	3,911
Utilities		103,959			103,959
Repair & Maintenance	587	25,338	2,893	8,714	37,532
Other Expenses	984	1,283	34	36,504	38,805
Total	63,776	155,583	104,925	152,585	476,869
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	1,551		873	7,926	10,350
Total	1,551		873	7,926	10,350
DEBT SERVICE					
Leases	6,975		7,900		14,875
Total	6,975		7,900		14,875
TOTAL PROGRAM EXPENDITURES	$238,746	$250,590	$732,974	$1,784,854	$3,007,164
GENERAL FUND					
Budgeted	$241,259	$251,836	$767,321	$1,445,407	$2,705,823
Actual	238,746	250,590	704,628	1,441,098	2,635,062
Unspent Budget Authority	$ 2,513	$ 1,246	$ 62,693	$ 4,309	$ 70,761
SPECIAL REVENUE FUND					
Budgeted			$ 38,000	$ 355,834	$ 393,834
Actual			28,346	343,756	372,102
Unspent Budget Authority			$ 9,654	$ 12,078	$ 21,732

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1992

	Administration	General Services	Student Services	Education	Total
PERSONAL SERVICES					
Salaries	$ 92,115	$ 335	$186,537	$ 999,728	$1,278,715
Hourly Wages	55,241	69,173	342,028	253,249	719,691
Other Compensation	100				100
Employee Benefits	32,480	22,928	159,820	314,667	529,895
Total	179,936	92,436	688,385	1,567,644	2,528,401
OPERATING EXPENSES					
Other Services	15,495	9,716	6,031	20,184	51,426
Supplies & Materials	2,515	19,652	59,227	64,559	145,953
Communications	14,960	341	80	6,252	21,633
Travel	3,532		53,228	19,962	76,722
Rent	201	441	60	2,460	3,162
Utilities		93,538			93,538
Repair & Maintenance	1,043	40,032	2,658	7,646	51,379
Other Expenses	1,702	2,589	6	25,195	29,492
Total	39,448	166,309	121,290	146,258	473,305
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	598	439	19,759	9,983	30,779
Total	598	439	19,759	9,983	30,779
DEBT SERVICE					
Leases			7,900		7,900
Total			7,900		7,900
TOTAL PROGRAM EXPENDITURES	$219,982	$ 259,184	$837,334	$1,723,885	$3,040,385
GENERAL FUND					
Budgeted	$241,306	$ 260,844	$803,643	$1,398,974	$2,704,767
Actual	219,982	259,184	803,217	1,398,077	2,680,460
Unspent Budget Authority	$ 21,324	$ 1,660	$ 426	$ 897	$ 24,307
SPECIAL REVENUE FUND					
Budgeted			$ 34,282	$ 327,538	$ 361,820
Actual			34,117	325,808	359,925
Unspent Budget Authority			$ 165	$ 1,730	$ 1,895

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA SCHOOL FOR THE DEAF AND BLIND
SCHEDULE OF ADDITIONS AND DEDUCTIONS TO AGENCY FUND
PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

PROPERTY HELD IN TRUST BALANCE, JULY 1, 1990		$ 6,669
ADDITIONS		
Receipts Fiscal Year 1990-91	$23,245	
Receipts Fiscal Year 1991-92	34,748	
Total Additions		57,993
DEDUCTIONS		
Disbursements Fiscal Year 1990-91	21,503	
Disbursements Fiscal Year 1991-92	35,636	
Total Deductions		57,139
PROPERTY HELD IN TRUST BALANCE, JUNE 30, 1992		$ 7,523

The school accounts for student account activity in the Agency Fund on a subsidiary system and periodic adjustments are made to the Statewide Budgeting and Accounting System. The schedule presented was prepared from the school's subsidiary system and not all of the information presented is included on the primary accounting records (SBAS). Additional information is provided in the notes to the financial schedules beginning on page A-9.

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana School for Deaf and Blind uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust and Agency Funds. In applying the modified accrual basis, the school records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the school incurs the related liability and it is measurable.
>
> State accounting policy also requires the school to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include entire budgeted service contracts even though the school received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The school uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. School Special Revenue Funds include School Trust

Interest/Income, E.C.I.A. Chapter I, EHA Part B, National School Lunch and E.C.I.A. Chapter II.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. School Fiduciary Funds include Student Funds, which are recorded in an Agency Fund, and Donations, which are recorded in an Expendable Trust Fund.

2. Annual and Sick Leave

Noncontract employees at the school accumulate both annual and sick leave. The school pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The school absorbs expenditures for termination pay in its annual operational costs. At June 30, 1991 and at June 30, 1992, the school had a liability of $130,816 and $163,617, respectively.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System and the Teachers' Retirement System. The school's contribution to the retirement systems was $135,342 in fiscal year 1991 and $133,558 in fiscal year 1992.

4. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. MSDB Foundation

The Montana School for the Deaf and Blind Foundation, Inc. was formed in October 1983, pursuant to section 20-8-111, MCA. The foundation performs duties for the school under a contract with the Board of Public Education. It files reports with the Board of Public Education demonstrating contract fulfillment. The Board of Public Education appoints the directors of the foundation. At least one member of the foundation is

a member of the Board of Public Education. The superintendent of the school is the executive director for the foundation.

The foundation is to receive, hold, manage, use and dispose of real and personal property given to the Board of Public Education or to the state of Montana by purchase, gift, devise, bequest or otherwise acquired. The proceeds, interest and income thereof are to be used for the benefit of the Montana School for the Deaf and Blind. It is not the intent of the foundation that its gifts to the school be used to supplant taxpayer funds. The foundation activity is not reflected on MSDB's presented financial schedules. The foundation expended approximately $125,000 in support of the school in both fiscal year 1990-91 and 1991-92.

6. Leases

MSDB purchased a school bus through a five year lease agreement during fiscal year 1989-90. The annual payment for the lease is $7,900. The remaining lease liability on the bus is:

Fiscal Year	Principal	Interest
1992-93	$ 6,651	$ 1,249
1993-94	7,249	651
Total	$13,900	$ 1,900

7. Litigation

Litigation is still pending between the MSDB and 12 employees. These employees are requesting back pay under an opinion from the Attorney General that teachers at the MSDB are entitled to leave benefits available to other employees of the state. A settlement was made in favor of other employees during the last audit.

The total potential liability for these employees is $60,235 plus 100 percent penalty costs for fiscal years 1987-88 and 1988-89. MSDB's legal staff has determined the possibility of loss to be remote. A decision should be reached in fiscal year 1992-93.

Agency Response

RECEIVED
FEB 10 1993
LEGISLATIVE AUDITOR

MONTANA SCHOOL FOR THE DEAF AND THE BLIND

STATE OF MONTANA

3911 CENTRAL AVENUE GREAT FALLS, MONTANA 59401 (406) 453-1401 VOICE/TDD

STAN STEPHENS, GOVERNOR BILL PRICKETT, SUPERINTENDENT

February 9, 1993

Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

The financial compliance audit on the school for the two fiscal years ending June 30, 1992 contained seven (7) recommendations. The school's response to each recommendation is presented below.

Recommendation #1: "We recommend the school seek legislation to amend state leave laws to allow it to pay contract employees for annual and holiday leave as part of the employees' hourly wage rate."

> Response: Concur--the school will seek legislation from the 1995 Legislature to amend state leave laws to allow payment of annual leave and holiday pay as part of the employees' hourly wage rate.

Recommendation #2: "We recommend the school implement procedures to gather and record employment data as required by state law."

> Response: Concur--the school will seek legislation from the 1995 Legislature to eliminate this statutory requirement.

Recommendation #3: "We recommend the school seek legislation amending state law to ensure student admittance complies with federal laws."

> Response: Concur--the school will seek legislation from the 1995 Legislature to modify or eliminate section 20-8-104, MCA to comply with federal statute.

Recommendation #4: "We recommend the school: (A) Develop and implement a policy on abandoned property which complies with state law, and (B) Implement controls over cash to ensure compliance with

state law."

Response: Concur--(A) the school will turn over abandoned property to the Department of Revenue; and (B) the school has instituted further controls over cash accounts to ensure compliance with state policy.

Recommendation #5: "We recommend the school recover indirect costs to the fullest extent possible in accordance with state law."

Response: Concur--the school will recover indirect costs to the fullest extent possible in accordance with the indirect cost plan approved by the Office of Public Instruction.

Recommendation #6: "We recommend the school work with Department of Administration to ensure revenue and expenditures are properly recorded on the state's accounting system in accordance with state law."

Response: Concur

Recommendation #7: "We recommend the school properly record and classify all rental revenue on the states accounting records in accordance with state law."

Response: Concur--the school will record all rental revenue on SBAS.

Please thank your staff for the assistance they provided during the audit. You may call me at 453-1401, if you have any questions.

Sincerely,

Bill Prickett

BILL PRICKETT
SUPERINTENDENT

BP/bl

cc: Wayne Buchanan, Board of Public Education